MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the South Dakota Public Utilities Commission

Docket No. NG12-___

Direct Testimony
of
David L. Goodin

**Q. Please state your name and business address.**

A. My name is David L. Goodin and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

**Q. By whom are you employed and in what capacity?**

A. I am the President and Chief Executive Officer (CEO) of Montana-Dakota Utilities Co. (Montana-Dakota), and Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc. I am also the President and CEO of Cascade Natural Gas Corporation and Intermountain Gas Company; subsidiaries of MDU Resources Group, Inc.

**Q. Please describe your duties and responsibilities with Montana-Dakota.**

A. I have executive responsibility for the development, coordination, and implementation of strategies and policies relative to operations of the above mentioned Companies.

**Q. Please outline your educational and professional background.**

A. I hold a Bachelor's Degree in Electrical and Electronics Engineering from North Dakota State University and a Masters of Business Administration Degree from the University of North Dakota. I also completed the Advanced Management Program at Harvard University in 2006. My work experience includes five years as a field Electrical Engineer; five years as division Electric Superintendent overseeing crews, servicepersons, and office personnel in constructing and maintaining Montana-Dakota's electric system; six years overseeing its Electric System Operations Dispatch Center, and in 2000 I became the Vice President – Operations for Montana-Dakota. In January 2007 I was promoted to Executive Vice President of Operations and Acquisitions and in July 2007 became President of Cascade Natural Gas Company. I was additionally named President of Montana-Dakota and Great Plains in March 2008 and President of Intermountain Gas Company in October 2008. I am a Professional Engineer registered in North Dakota.

**Q. Have you testified before this Commission and other state regulatory bodies?**

A. I have previously testified before the Public Service Commissions of Montana, North Dakota and Wyoming and the Washington Utilities and Transportation Commission and have submitted written testimony in proceedings before the Oregon Public Utilities Commission.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to provide an overview of the Company's South Dakota natural gas operations for both the East River and Black Hills areas, explain our request for a natural gas distribution rate increase, the reasons for the consolidation of the East River and Black Hills rate areas and discuss the policies and reasons underlying the major aspects of the request. I will also introduce the other Company witnesses that will present testimony and exhibits in further support of the Company's request.

**Q. Would you provide a summary of Montana-Dakota's gas operations in South Dakota?**

A. Montana-Dakota provides natural gas service to approximately 47,600 customers in 14 communities in the Black Hills area and approximately 7,200 customers in 11 communities in the East River area. As of June 30, 2012, the Company had 73 full and part time employees who live and work throughout our South Dakota electric and gas service area. Montana-Dakota's South Dakota gas service area is divided into two operating regions with regional offices located in Rapid City, South Dakota and Bismarck, North Dakota and a number of smaller district offices located in communities throughout South Dakota.

The residential, firm general service and small interruptible customers use natural gas primarily for space and water heating. As such, Montana-Dakota's system has a low load factor with peak gas requirements occurring during the winter with summer loads being small by comparison. The total annual gas used by our South Dakota customers is 7.9 Mmdk as identified for the test period in this case. Consumption by customer class is as follows: 45 percent residential, 36 percent firm general service, 5 percent small interruptible, 10 percent large interruptible and 4 percent for the Air Force.

**Q. Q. Mr. Goodin, did you authorize the filing of the rate application in this proceeding?**

A. Yes, I did.

**Q. Why has Montana-Dakota filed this application for a natural gas rate increase?**

A. Montana-Dakota is requesting an increase in its general gas rates at this time because our current rates do not reflect the cost of providing natural gas service to our South Dakota customers.

**Q. Would you please describe the basic elements that make up the total costs of providing natural gas service?**

A. For a natural gas distribution utility, the basic elements which make up the cost of providing natural gas service are the cost of gas purchased at the town border stations in its service territory and the cost of distributing the gas from the town border station to the end use customer. It is the second of these two elements, the distribution costs, which are the subject of this application for a general rate increase.

The natural gas we purchase from suppliers in our service area is a commodity like wheat or corn, the price of which is not regulated. The cost of delivering the gas to our distribution system at the town border station is regulated by the Federal Energy Regulatory Commission or other regulatory agencies. These gas costs are passed on to our customers on a dollar-for-dollar basis as specified in our Commission approved Purchased Gas Cost Adjustment tariff. The gas cost portion of our cost of providing natural gas service comprises about 59 percent of a typical residential bill for gas service.

The distribution cost portion of our rates is the subject of this proceeding. This portion includes operation and maintenance expenses, depreciation, taxes, and a component for the opportunity to earn a return on the investment we have in facilities to provide natural gas service. The distribution costs are about 41 percent of a typical residential bill.

The basic components are shown graphically on Exhibit No. ___ (DLG-1).

**Q. What is the amount of the increase requested?**

A. As will be fully explained by other Company witnesses, the Company is requesting a natural gas rate increase of $1,548,355 (a 3.3 percent increase over current rates) based on a June 30, 2012 test year adjusted for known and measurable changes.

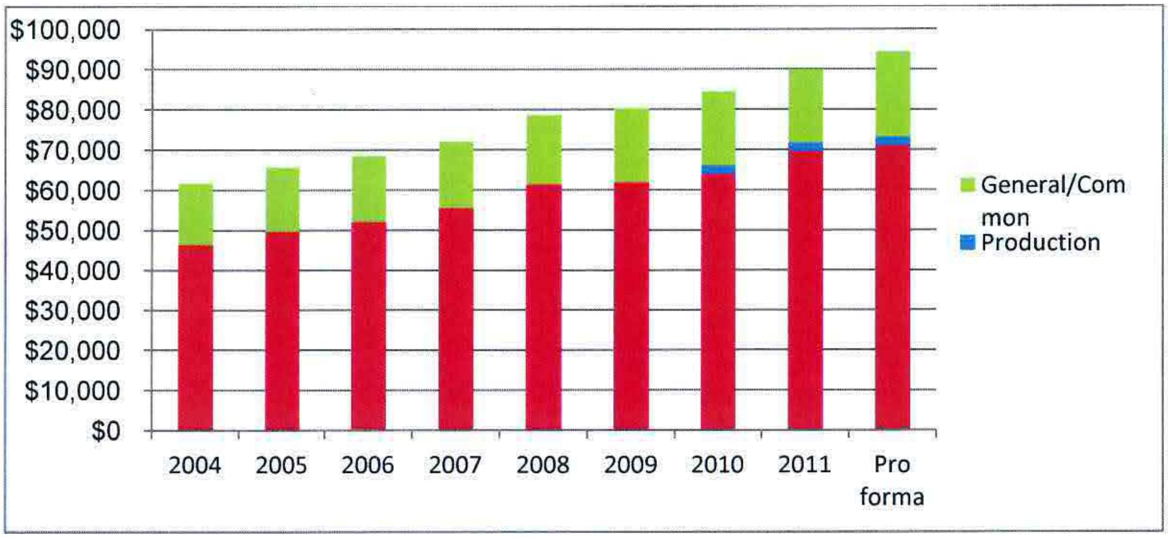
**Q. How will the requested increase affect the various classes of customers?**

A. The proposed percentage change in rates by customer class is as follows:

| Class | Percent Increase |
| --- | --- |
| Residential | 5.2% |
| Firm General | 0.0% |
| Small Interruptible | 0.0% |
| Large Interruptible | 9.8% |
| Total | 3.3% |

**Q. What are the primary reasons that Montana-Dakota needs an increase at this time?**

A. The primary reason for the increase in rates is the increased investment in facilities and the associated depreciation, operation and maintenance expenses and taxes associated with the increase in investment. The table below shows the investment in natural gas plant assigned and allocated to South Dakota gas operations. The gross investment in South Dakota gas operations has increased by approximately $33 million, or approximately 53 percent, from 2004 to the pro forma levels included in this case. In addition to the ongoing investment for new customers and replacing existing facilities, investments in a landfill gas production facility, a new district operations building, and an automated meter reading system have occurred since the last case, along with a new customer billing system to be implemented in February 2013.




The increase in investment has been accompanied by a growth in customers, but we continue to see conservation by customers. In the last general rate case, Docket No. NG04-004, the average annual usage for a residential customer was 83 dk while in the twelve months ending June 30, 2012, on a weather normalized basis, a residential customer used 75 dk annually. While not in the same magnitude, the average annual usage for a residential customer in the East River area has also decreased from 63 dk as authorized in the last rate case to 61 dk.

At the same time, operation and maintenance expenses have decreased on a per customer basis, from an annual cost per customer of $199 per customer in 2004 to an annual pro forma cost of $157 per customer. During this same time period the Consumer Price Index (CPI) increased by 21 percent.

**Q. When was the last general natural gas rate increase for Montana-Dakota in Montana?**

A. Montana-Dakota's last general gas rate case was in Docket No. NG04-004 for the Black Hills area and in NG05-002 for East River. The resulting increases were 1.4 percent for the Black Hills area effective in December 2004 and 12.8 percent for East River customers effective in September 2005.

**Q. What is the Company doing to control costs?**

A. Montana-Dakota works hard to control its costs by continually looking for opportunities that create efficiencies and control costs. Recently, Montana-Dakota participated in a utility integration effort, along with the three other utilities within the MDU Resources Group, Inc.'s Utility Group (Great Plains Natural Gas Co., Cascade Natural Gas Corporation and Intermountain Gas Company). Through this effort, the four utilities came together to pursue best practices and employ technological advances in an effort to streamline similar processes across all four utilities, while also addressing the current economic uncertainties being experienced today.

**Q. What are some of the changes that have been identified to date from this integration effort?**

A. A number of changes have already occurred or are in the process of being implemented. Some of the major changes are:

- *Service center consolidation*. We combined five separate call centers operated by Montana-Dakota, Cascade and Intermountain into one service center, located in Meridian, Idaho. This combined center is responsible for all incoming customer calls for the four utilities.

- *Implementation of a central credit center.* A centralized credit center for all four utilities is located in Bismarck, North Dakota, where credit representatives are available to work with customers to resolve credit problems and collection issues in addition to working with Social Services, the Low Income Energy Assistance Program and other energy assistance agencies. The Bismarck Credit Center will also operate as a back-up call center to the Meridian Customer Service Center during high call times.
- *Establishment of pay stations.* Pay stations were established throughout Montana-Dakota's service territory in an effort to provide convenient bill payment options and extended hours by using established Western Union vendors.
- *Work force reductions.* In addition to the the work force requirements associated with the three changes mentioned above, the Company continues to review all aspects of the utility business to ensure Montana-Dakota is operating as efficiently as possible.
- *Comparable benefits.* The integration of processes brings with it the necessity to have comparable benefits among the

utility companies. Primary changes to the benefits structure at Montana-Dakota were in the pension and post retirement areas, which reduced these costs.

All of these measures will provide comparable benefits across the utility group and enable the Company to control its costs.

The Company has also refinanced essentially all of its long term debt since 2006 and has lowered its embedded weighted average debt cost from 8.794 percent at December 31, 2005 to a projected 6.846 percent at June 30, 2013.

**Q. Mr. Goodin, what is the compensation philosophy at Montana-Dakota and how does it compare with other like businesses that neighbor Montana-Dakota?**

A. Our philosophy is to be able to attract and retain a workforce that can provide safe and reliable service to our customers. We target providing a total compensation package to our employees that is at our market average for similar utility work at other utilities. This compensation includes base pay and incentive pay along with various benefits. Ms. Jones, Director of Human Resources, discusses these areas in more detail.

**Q. What return is Montana-Dakota requesting in this case?**

A. Montana-Dakota is requesting an overall return of 8.101 percent, inclusive of a return on equity (ROE) of 10.5 percent. Dr. Gaske's analysis indicates that a 10.5 percent ROE is fully justified and supported.

**Q. Montana-Dakota is proposing to consolidate the Black Hills and East River areas into one rate jurisdiction? Would you explain the Company's proposal ?**

A. Yes. I would first like to give some background on why the East River has been a separate jurisdiction from the Black Hills area.

In early 1993, Montana-Dakota began investigating the possibility of expanding service to the Pierre, South Dakota area along with South Dakota Intrastate Pipeline Company (SDIP). At that time, Montana-Dakota's South Dakota natural gas service area was comprised of service to several communities in western South Dakota which we refer to as the Black Hills service area. In addition to natural gas service, Montana-Dakota provided electric service in 32 communities in South Dakota and Montana-Dakota believed that it could adequately provide natural gas service to several of the South Dakota communities where the Company was providing electric service (Mobridge, Gettysburg, Ipswich, Selby, Bowdle, Roscoe and Glenham) as well as expanding into the communities of Pierre, Ft. Pierre, Onida and Agar. The expansion seemed to be a logical fit with our organizational structure. Montana-Dakota negotiated a transportation service agreement with SDIP for delivery of natural gas from an interconnection with Northern Border Pipeline.

The new distribution system was completed and commenced service in August 1993. East River became a separate rate jurisdiction due to the cost of the new system and potential effects on customers in the Black Hills area.

Twenty years down the road it is now appropriate to consolidate the two jurisdictions into one rate area. The change will not affect the operations in either area and Montana-Dakota will continue to operate as it does today but from a rate and cost of gas perspective it will be one, rather than two jurisdictions. The effects on customers in both the Black Hills and East River areas will be minimal and Ms. Aberle will discuss the effects on customers.

**Q. Will you please identify the witnesses who will testify on behalf of Montana-Dakota in this proceeding?**

A. Yes. Following is a list of witnesses that will provide testimony and/or exhibits in support of the Company's application:

- Mr. Jay W. Skabo, Vice President – Operations will testify on the distribution operations and provide support for the distribution investment contributing to the need for the requested increase in rates.
- Mr. Michael J. Gardner, Executive Vice President of Utility Operations Support for Montana-Dakota will testify regarding the customer service function and the new customer billing system.
- Ms. Anne M. Jones, Director – Human Resources, will testify regarding the Total Rewards Philosophy of the Company as it relates to base pay, variable (incentive) pay and employee benefits.

- Mr. Robert C. Morman, Director of Gas Supply for Montana-Dakota will discuss the Billings Landfill gas production project and discuss the use of a 60 degree base for normalizing volumes for weather.
- Mr. Garret Senger, Vice President of Regulatory Affairs and Chief Accounting Officer (CAO) for Montana-Dakota, will testify regarding the overall cost of capital, capital structure and overall debt and preferred equity costs.
- Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy Advisors, Inc. will testify regarding the appropriate cost of common equity for Montana-Dakota's Montana gas operations.
- Ms. Rita A. Mulkern, Director of Regulatory Affairs for Montana-Dakota, will testify regarding the total revenue requirement necessary for combined South Dakota gas operations, the consolidation of the Black Hills and East River purchased gas cost of gas adjustment tariffs into one tariff and the proposed margin sharing credit for grain drying margin.
- Mr. Earl Robinson, Principal and Director of AUS Consultants will testify to the Gas and Common Depreciation Studies that support the proposed depreciation rates in this filing.
- Ms. Tamie A. Aberle, Director of Regulatory Affairs for Montana-Dakota, will testify on the rate design, the embedded class cost of service study and proposed tariff changes.

**Q. Mr. Goodin, are the rates requested in this proceeding just and reasonable?**

A. Yes. In my opinion, the proposed rates are just and reasonable as they are reflective of the total costs being incurred by Montana-Dakota in providing safe and reliable natural gas service to its customers. The proposed rates will provide Montana-Dakota the opportunity to earn a fair and reasonable return on its South Dakota natural gas operations.

**Q. Does this complete your direct testimony?**

A. Yes, it does.